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The State of Sino-Soviet Relations

Perspective

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The USSR and the PRC in the past year have taken the first steps on the long road toward reducing bilateral tensions and establishing a political channel for resolving some outstanding differences. The Chinese apparently believe that their economic modernization effort requires prolonged stability on the Sino-Soviet border and that reduced tensions would allow a diversion of resources from military to nonmilitary purposes. The Soviets clearly want to prevent any further erosion of their strategic position in the US-USSR-China triangle and, at this juncture, want to capitalize on Sino-US differences. Indeed, both sides have sufficient motivation to improve relations in view of their serious domestic problems and their current difficulties in dealing with the United States.

Chinese demands for changes in Soviet border policies (both military and territorial), as well as conflicts over various third-party relations, should assure that any progress is limited and gradual. Nevertheless, Beijing's willingness to begin a dialogue with Moscow marks a substantial shift in tactics since the Soviet invasion of Afghanistan (see "China Views the USSR") and presages increased economic activity as well as additional high-level political contacts. Aleksandr Bovin's trip to Beijing last month could very well lead to a resurrection of border talks. Bovin has links to party Chief Andropov and was formerly associated with the party's Bloc Liaison Department.

In "The View From Moscow," we note that the Soviets appear convinced that, since both Moscow and Beijing currently have a list of grievances against the United States, they have a common incentive to settle some of their differences in the near term. The Soviets may well conclude that further initiatives on their part will be needed to keep the Chinese engaged in a process that could eventually lead to an improvement in their relationship. Such initiatives could include the withdrawal of a division or so from the border or a thinning of various units in the area, a

demilitarization of disputed areas, or an acceptance of the main river channel as the border on the Amur and Ussuri Rivers. At the very least, some normalization of relations and easing of tensions can be expected, but an end to the Sino-Soviet geopolitical competition or a genuine rapprochement cannot.

The most likely area for improved relations would be in broadened economic exchanges between the two states. In "Prospects for Improved Sino-Soviet Economic Relations," we assess the likelihood of increased bilateral trade and China's greater use of Soviet resources in reequipping its industrial establishment. The Soviets are the likely beneficiary of China's decision to reduce its emphasis on importing whole plants from Japan and the industrialized West. Beijing may also see merit in drawing upon technological areas in which the USSR is well advanced, such as basic petrochemical technology and techniques for discovering and processing nonferrous metal deposits. The recent lessening of political tensions should facilitate economic negotiations and allow for the introduction of greater amounts of Chinese consumer goods into the Soviet Far East as well as Soviet timber, fertilizer, and machinery into China.

Progress is far less likely on Third World issues that separate Moscow and Beijing, such as Afghanistan and Kampuchea. In the article "Vietnam, Kampuchea, and the Sino-Soviet Talks," we record China's efforts to use the talks to maintain pressure on the Soviet-Vietnamese alliance. Although the Chinese will also keep pressing their case on the Soviet presence in Mongolia and Afghanistan, the Soviets probably will try to focus the talks on bilateral, territorial, and military issues.

The slightest improvement in Sino-Soviet relations would be beneficial for both sides, allowing China to increase the price for future cooperation with the United States and offering the USSR a reduced sense of geopolitical encirclement. Any progress between the two powers would increase anxiety among other states in the region, particularly in Japan and South Korea where there would be greater interest in defense cooperation with the United States. Sino-Soviet hostility generally has been beneficial to ASEAN states, and these states would be particularly concerned with a thaw that was accompanied by a worsening of relations between Beijing and Washington.

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Sino-Soviet Relations: The View From Moscow

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The first round of Sino-Soviet "consultations" in Beijing last October produced little in the way of substantive results, and the two sides apparently continued to talk past each other to a large extent during the recent talks in Moscow. They have succeeded in easing tensions somewhat, if only by maintaining a dialogue and increasing trade and other nonpolitical contacts, but seem to have made little if any progress toward settling their main differences. The Soviets are conscious of how far forward the Chinese have moved over the past year, however, and presumably want to encourage further movement in that direction. The Soviets also are aware that a totally uncompromising stand on the key issues risks a breakdown in the talks or an international perception that there is a stalemate—outcomes that they want to avoid.

The Current Stage

The dialogue to date has improved the atmosphere, but the Chinese have made it clear that any more far-reaching improvement in the relationship will depend on Soviet willingness to make concessions on at least some of the key issues dividing the two countries. The Soviets, while suggesting some flexibility, have not taken any concrete steps toward meeting Beijing's demands on these points. Soviet troops are still engaged in the Afghan conflict, the USSR continues to support Vietnamese operations in Kampuchea, and the Soviet military buildup opposite China gives no sign of abating.

Moscow is probably encouraged by China's expressed willingness to discuss specific areas of difference, rather than press for action on all grievances at once. Moscow also may be encouraged by the fact that Secretary of State Shultz's visit to Beijing in February did not resolve the Taiwan issue and by recent Chinese criticism of US foreign policy. If such is the case, Moscow may well believe that Sino-Soviet ties are more open to improvement now than at any time during the past two decades.

The main problem, from the Soviet standpoint, is to find a way to improve relations with China without jeopardizing other key interests. The Soviets have, to this end, insisted that any improvement in Sino-Soviet ties will not be at the expense of their allies. They have, at the same time, used an article in *New Times* on 14 January to urge a resumption of the border talks with China, which were last held in June 1978. A few well-informed Soviet figures—most notably, *Izvestiya* political commentator Aleksandr Bovin, who reportedly is a confidant of General Secretary Andropov—also have raised the possibility of mutual force reductions along the Sino-Soviet border.

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A key question is the extent to which the USSR feels any sense of urgency about improving relations with China. The most recent Soviet statements—public and private—suggest that the USSR will continue to move cautiously and will be satisfied if it can "normalize" relations with Beijing over the next few years.

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Soviet Objectives

Moscow wants, first and foremost, to prevent any further erosion of its position in the US-USSR-China relationship. The Soviets clearly do not want antagonism on "two fronts" at a time of a mounting US defense effort and ever-increasing economic problems at home. They may hope to lessen the possibility that China would enter a two-front war against the USSR in the event of a NATO–Warsaw Pact conflict.

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Moscow wants to exploit the deterioration in US-Chinese ties that has occurred over the past year. The Soviets may think that an easing of Sino-Soviet tensions is encouraging Washington to question the wisdom of helping China to modernize its economy and defenses, and thus creating an environment in which Chinese disillusionment with the United States will continue. They certainly have long had an interest in persuading the United States that Sino-Soviet

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Military Developments on the Sino-Soviet Border

Soviet Forces

The USSR has quadrupled its Ground and Air Forces opposite China since the mid-1960s while simultaneously modernizing these forces and improving their logistic infrastructure. Soviet ground forces in the area now number approximately 435,000 men in 48 combat divisions—over 25 percent of the total manpower of the Ground Forces (see map). The Soviet armed forces and the KGB Border Troops together have between 600,000 and 700,000 men opposite China. The modernization of these forces has received new impetus since the early 1970s while the growth in the number of combat units has slowed.

The number of tactical, fixed-wing combat aircraft opposite China has increased from about 220 in 1965 to approximately 1,100 today. In addition, some 215 medium or light bombers are assigned to the theater-level air army in that area. The main emphasis since the mid-1970s has been on the replacement of older tactical aircraft with new, more capable models. The number of attack, transport, and general purpose helicopters deployed along the border also has grown substantially—from under 100 in 1965 to about 1,200 at present

Recent military developments along the Sino-Soviet border include:

- *The conversion of two motorized rifle divisions (MRDs) to tank divisions and the activation of a new MRD in the Far East Military District (MD).*
- *The introduction of T-72 tanks to Soviet forces along the border.*
- *The creation of new army- and corps-level commands opposite China.*
- *The reequipment of Soviet ground attack regiments with SU-17 Fitter and MIG-27 Flogger fighter-bombers and the SU-24 Fencer light bomber.*

Chinese Forces

Despite cuts in defense spending and a reduction in the size of the Chinese armed forces, Beijing has steadily strengthened its defenses opposite the Soviet Union since 1979. China now stations nearly half of its ground and air forces—about 1.6 million men and some 2,700 combat aircraft—in the four military regions bordering the USSR and Mongolia. 25X1

The current buildup has added new units and resulted in a 30-percent increase in major weapons in the northern military regions. Most of this effort has been focused in the northeast, primarily in the Shenyang Military Region. Improvements there include: 25X1

- *Creation of three new local-force garrison divisions and one new tank division.*
- *Addition of armored regiments to eight garrison divisions.*
- *Addition of a mechanized infantry regiment to two main-force divisions.* 25X1

The Beijing and Lanzhou Military Regions have received less in the way of significant improvements, but the Urumqi Military Region in the northwest has received proportionately large quantities of new weapons. Urumqi defenses also have been strengthened by: 25X1

- *Moving an infantry division from Tibet to the capital.* 25X1
- *Adding a newly formed garrison division and main-force antiaircraft artillery division.*
- *Expanding two garrison units in the mountains west of the capital.* 25X1 25X1

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relations are not frozen—if only to make the United States less confident about taking strong, anti-Soviet stands elsewhere in the world.

Moscow probably is also hoping for an easing of Chinese hostility toward the USSR on a wide range of international issues, particularly on Afghanistan and Vietnam. Even a partial thaw with China could ease the pressure on the USSR's allies in Asia and reduce the danger of a US-China-Japan alliance in the Far East—a prospect that troubles the Soviets greatly. It also could allow the Soviets to shift some military resources in the Far East.

Possible Soviet Concessions

The Soviets have already had some success in improving Sino-Soviet atmospherics without paying any price. Further improvement could require that they advance their positions in at least one of the areas discussed below.

Soviet Forces Opposite China. The Soviet military buildup in the Far East is a major Chinese concern. We do not rule out the possibility of a unilateral Soviet move such as the withdrawal of a division or so from the border or a thinning of various Soviet units in the region. Even such token gestures, however, probably would be highly controversial within the Soviet leadership. The military remains deeply concerned about the vulnerability of the USSR's long and exposed eastern frontier, and many civilian leaders probably have their own doubts that a unilateral gesture would bring anything in return.

Soviet officials have, in fact, insisted that any military disengagement along the border must be a two-way process involving some Chinese concessions. They have told Western diplomats and other contacts that the USSR will not dismantle its bases near China without receiving more than just a few "promises" from Beijing. But several well-informed Soviets have, at the same time, suggested that negotiations could lead to significant troop cuts on both sides.

Less dramatic and costly Soviet proposals could involve advance notification of military exercises in the area and acceptance of observers at those exercises. Deputy Foreign Minister Kapitsa has indicated in recent conversations with Western diplomats that the Soviets believe the two sides will eventually reach an agreement on such measures, which would be consistent with Soviet commitments on the USSR's western frontier. Moscow also could propose a new set of rules governing the activities of border troops along the frontier or limiting reconnaissance flights in that area.

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The Soviets have little room for maneuver on the Chinese demand for a complete military withdrawal from Mongolia. They regard their military presence there as an integral component of their policy toward China. They may also be concerned that lessened support for the regime in Ulaanbattar could give rise to political instability there. The deputy director of China's main institute for Soviet studies claims that *Izvestiya* commentator Bovin—while in Beijing in February—did, however, suggest that the Chinese and Mongolians sign a nonaggression treaty and hint that this could lead to a withdrawal of some Soviet troops. The Chinese responded that this was a step "they could not possibly undertake" while Soviet forces remain in Mongolia. In conversations with US officials, the Chinese continued to dodge direct questions on whether the issues of Soviet troop withdrawals from the Sino-Soviet border and Mongolia were linked.

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Press reports that progress has been made toward a mutual reduction of forces along the border remain unconfirmed. Bovin's reported comment on Mongolia, however, is another indication that Moscow plans some initiative on security issues. The Soviets could, for example, offer to withdraw a limited number of troops—possibly up to a division—in return for a Chinese pledge not to attack Mongolia or station troops closer to it.

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The Territorial Dispute. The immediate sticking point—from Moscow's perspective—has been the Chinese notion that the two sides should recognize that certain areas are in dispute, withdraw their military forces from those areas (all of which are in Soviet hands at present), and agree to return all territory that rightfully belongs to the other. If Beijing were to suggest some flexibility on those points,

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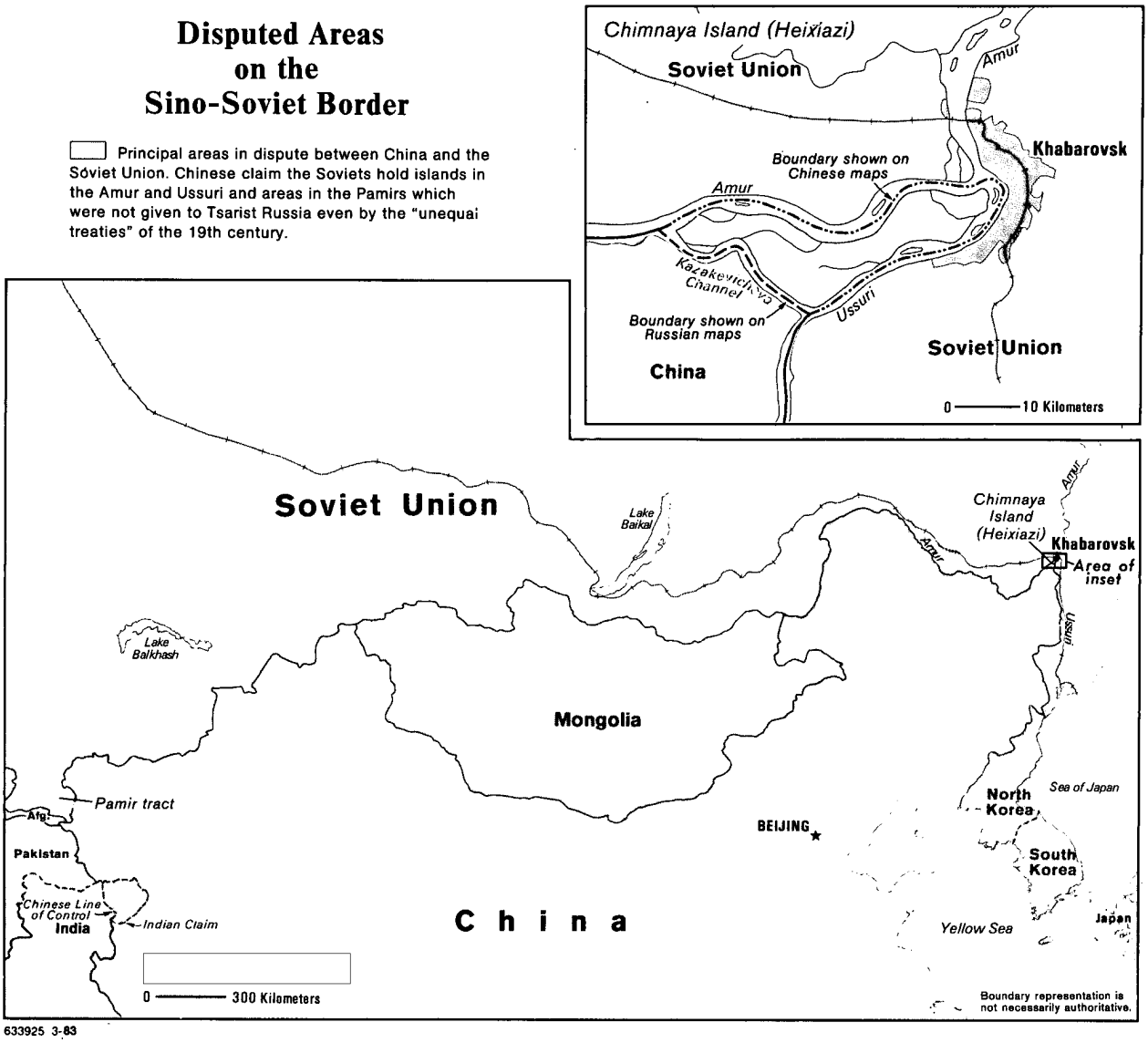

however, Moscow probably would be willing to do some bargaining on specific contested areas. Moscow could propose a gradual demilitarization of these areas as progress is made toward a settlement of the dispute. A formal demilitarization of the disputed islands in the Amur and Ussuri Rivers would be a logical first step.

If the two sides established some mutual basis for compromise on these points, Moscow could offer Beijing several concessions to help settle the territorial dispute. They could, for example, accept the main channel as the border on the Amur and Ussuri Rivers, while offering China compensation for Heixiazi Island, opposite Khabarovsk. The Soviets already accept the "Thalweg rule"—recognition of the main channel as the border—in principle, but have always interpreted it to their own advantage on several key points—most notably, with their contention that the main channel runs south and west of Heixiazi Island, making it Soviet territory.

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The Indochina Connection. Moscow does not regard its support for Vietnam as a subject for negotiation in bilateral talks with the Chinese but could temper its backing of Hanoi to some extent in an effort to placate Beijing. Moscow could curtail shipments of material to Vietnam or put added pressure on Hanoi to scale down its operations in Kampuchea. The Soviets also could try to help arrange a face-saving settlement, such as a coalition headed by Prince Sihanouk, but they have shown no inclination to do so as yet

Afghanistan. The Soviets have even less room for maneuver on the Afghan question. But they could make a few tactical concessions to meet Chinese demands on this issue—such as intensifying their professions of interest in a political settlement. They also could consider another token troop withdrawal. Such moves would only be gestures, but they might give Beijing a pretext for scaling down its criticism of the Soviet presence in Afghanistan.

Bilateral Contacts. Finally, Moscow is sure to push for a further expansion of mutally beneficial economic and cultural ties. Both sides seem optimistic about the prospects for trade, which according to the agreement signed on 10 March will increase by over 150 percent and reach approximately $800 million in 1983, the highest level since the early 1960s. Much of the increase reportedly will come from larger Soviet purchases of textiles, which Moscow may see as a means of encouraging Beijing's dispute with Washington over restrictions on Chinese textile exports. Moscow also probably agreed to make a greater effort to fill Beijing's orders for timber, other raw materials, and chemicals—items the USSR has been able to sell for hard currency. Sino-Soviet trade would still be far below the 1982 level of US-Soviet ($3 billion) and Chinese-US ($5 billion) bilateral trade, however.

Soviet officials are, for the first time in years, talking about a resumption of party-to-party contacts, and Moscow is stressing its ideological affinities with Beijing. Moscow informed all of the Communist countries—including China—of Brezhnev's death last November before it was announced publicly. Moscow has, in the meantime, evidently lessened its efforts to block Chinese attempts to expand ties with East European countries and West European Communist parties. 25X1

Soviet Constraints

Several factors could hinder the Soviet effort to improve relations—among them, an apparently persistent Soviet belief in "hanging tough" when dealing with Beijing. Kapitsa has told Western diplomats that the Chinese have moved forward only because the Soviets stood firm on key issues, especially on the matter of preconditions for talks. Soviet academicians have expressed the same notion in recent exchanges with US experts. 25X1 25X1

The Soviets may also be reluctant to offer much in the way of concessions because they are not sure about the ability of the current leaders to deliver on any bargain 25X1 uncertainty over 25X1 Chinese internal political stability was inhibiting a 25X1 Soviet decision on force reductions along the border with China. Then, too, the Soviets may fear that concessions on the key issues would only whet China's appetite for more. 25X1

The Kremlin leaders are, in any event, well aware that any offer of a disengagement along the Sino-Soviet border must take into account the interests of the Soviet military. A decision to offer Beijing major concessions on the issue of troop cuts would, even in the best of circumstances, entail acrimonious debate in Moscow. Such a debate would be a particularly unattractive proposition for Andropov and other Soviet leaders at this time, because the support of the military is critical in any succession period. 25X1

The Soviets would face several problems in working out a proposal for troop withdrawals—among them, 25X1 the difficulty of comparing a modernized well-equipped Soviet division with a poorly equipped but manpower-rich Chinese division. Also, the Soviets would not want to leave strategic targets—the Trans-Siberian Railroad, for example—or major population 25X1 centers near the Chinese border unprotected. The 25X1

Siberian climate rules out moving Soviet troops too far from the border region, and shifting troops to areas nearer Japan—such as Sakhalin Island—would upset the Japanese.

Recent signs of strains in relations between Washington, Tokyo, and Beijing probably have strengthened the case of those in Moscow who argue there is no need to move fast. A desire to protect other equities in Asia—most notably, ties to Vietnam and India—would also argue against any attempts to achieve a sudden breakthrough with the Chinese.

Soviet Prospects

The Soviets are probably uncertain about just where the current Sino-Soviet dialogue will lead. We doubt that Moscow expects a full rapprochement with both sides cooperating on a wide variety of issues and treating each other as equals. The Soviets know that a legacy of mutual mistrust and suspicion on both sides will complicate any efforts in Moscow or Beijing to build a domestic consensus in favor of improved relations.

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We believe the most that Moscow expects is a limited detente with China—a further relaxation of tensions, increase in bilateral contacts, and some movement on the border dispute and related security issues. The Soviets are, of course, mindful that this would require significant "give" on both sides—with Beijing scaling down its demands on Kampuchea, Afghanistan, and Soviet military deployments opposite China. A decision to accommodate the Chinese on any of these points would, by the same token, be extremely controversial in Moscow. It could be portrayed as a continuation of Brezhnev's policy, however, and there are grounds for taking some risks, since a leader who could ameliorate the hostility with China would significantly enhance his own position in Moscow.

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The Soviets—in our view—are mindful of the dynamics of the negotiating process and of the extent to which a key variable here is the existence in both Moscow and Beijing of the "political will" to settle at least some of their basic differences. They may believe that, since both Moscow and Beijing have a list of grievances against the United States, both sides have an added inducement to try to settle at least some of those differences.

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The two sides can be expected to make further progress toward a "normalization" of relations in the coming months. The broad-based geopolitical competition of the past decade will not end, but it could take different forms, be less acute, and possibly be accompanied by some instances of tacit cooperation. A full-scale rapprochement between the Soviet Union and China is highly unlikely, but the atmosphere will improve and contacts will expand.

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The Chinese View of Sino-Soviet Relations

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At the 12th Chinese Communist Party Congress last September, Hu Yaobang characterized Soviet policies as "grave threats to China's security." Moscow's efforts in the past two decades to play a major role in Asian affairs are seen as an attempt to deny China its rightful position as an Asian power and to surround it with Soviet clients. China views Soviet activities in Indochina, South Asia, and Mongolia as part of an effort to encircle it and regards termination of these activities as necessary for establishing good relations.

This concern is intensified by the Soviet military buildup along the border, which is regarded as far in excess of what is needed for self-defense and as proof of Moscow's intentions to use the threat of military force to gain political objectives. In Chinese eyes, a major purpose of this buildup has been to coerce China into accepting both a border settlement on Soviet terms and the status of a Soviet client state.

Factors Influencing New Approach

A number of factors have contributed to the recent shift in the way China deals with this threat. Beijing continues to regard the USSR with deep suspicion but has concluded that China's interests are served by an easing of tensions and by the development of contacts in a number of functional and technical areas.

In the past two years China has adopted a more self-assertive policy and has distanced itself from the United States on some issues. As part of the process of dissociation from the United States, the Chinese have calculated that greater contacts with the Soviets will serve to demonstrate independence and freedom of maneuver. Moreover, they appear to have concluded that political and economic gains can be achieved in relations with both the United States and the USSR through a more nuanced policy toward the USSR.

Chinese commentary in recent years has pointed to growing domestic and foreign difficulties facing the USSR. A nearly stagnant economy, the Afghan morass, and difficulties in Poland have been cited. This treatment of Soviet problems probably reflects a belief that, while the USSR has not become less threatening, it may have become somewhat more likely to accommodate Beijing's interests. Although recent Chinese statements do not suggest optimism that the new Soviet leadership will be more flexible, Beijing apparently considers it useful to maintain a forum where Soviet willingness to compromise can be explored during the transition period.

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Finally, Beijing probably has been impelled by a desire to reduce tensions with Moscow in order to pursue economic modernization in a more tranquil environment. A reduction of Sino-Soviet hostility could enable the regime to devote fewer resources to defense and more to economic development.

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Chinese Objectives

We believe that China is using its opening to the USSR to ease tensions and to show progress on the basic issues that divide them. Beijing used the first round of talks to press the USSR on these issues and in the process, did not signal any flexibility. Beijing tied cultural and other agreements to Soviet concessions—a position we believe it will slowly move away from as the talks progress.

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It is in Beijing's interest to gain some alleviation of its security concerns, and the Chinese will be anxious to encourage any process that promises a tempering of the Soviet threat. Beijing, moreover, almost certainly recognizes that even small steps on the basic issues will require a willingness to meet the Soviet Union halfway. This willingness, however, will be limited by China's belief that it is Moscow's responsibility to remove these threats to Chinese security.

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We believe that the Chinese will not be wholly intransigent on this matter, but their concern over the Soviet threat will lead them to demand, at the least,

that the USSR take the first step in alleviating this concern. Beijing will "consider" troop withdrawals from border regions if the Soviets first agree to reduce the number of their forces along the border. We believe that Beijing will become more flexible on this issue over time if the USSR shows some willingness to accommodate Chinese positions.

In adopting more flexible tactics in its dealings with the Soviet Union and in resuming talks Beijing has:

- Opened a channel to the Soviets that can be used during the transition period to probe for signs of change in Soviet policies.
- Demonstrated its own desire to ease frictions in order to concentrate on internal development.
- Gained a means of sowing discord between Moscow and Vietnam.
- Reminded the United States that China has the option of improving relations with Moscow.

Chinese commentary also suggests that Beijing believes its interests are served in people-to-people contacts with Soviet citizens, presumably in terms of demonstrating the falsity of anti-Chinese propaganda. China also considers that a more flexible attitude toward the USSR will give it broader access to Moscow's East European clients and greater opportunities to disrupt ties between them and the Soviets.

in the spring of 1982 Deng Xiaoping believed that China should continue to oppose Soviet "hegemonism" but also should reduce tensions with Moscow. He observed that relaxing relations with the Soviet Union would be beneficial for Sino-US relations. In seeking both to ease tensions with the USSR and to remind the United States that China should not be taken for granted, Beijing has attempted to restructure its relations with both of the superpowers in a way that:

- Lessens the prospects for conflict with the USSR.
- Enables China to pursue economic gains from ties with the USSR.
- Maintains those aspects of relations with the United States that China regards as beneficial.

Chinese Expectations

China expects to be able to manage its relations with the United States and the USSR in a way that demonstrates China's independent status and preserves the gains made through its opening to the West. Chinese statements suggest that, in the short term at least, Beijing believes that it will not have to choose between East and West and that the process of reducing tension with Moscow will move at a slow pace that will not cause a reaction that could restrict Chinese access to Western trade and financial institutions.

China does not appear at this point to expect that its talks with the USSR will progress rapidly to a resolution of differences and has even stated that they probably will be "marathon." Beijing, nevertheless, clearly wants to position itself to take advantage of any changes that might occur in Soviet policy and has set in motion a process that could lead to substantial improvements in its security. Although China will be willing to make concessions in order to ease the Soviet threat, past Chinese negotiating behavior suggests that they are likely to be slow in coming and would be made to encourage greater Soviet concessions.

Beijing appears to have used the first round of talks to present a set of tough initial negotiating positions. We believe that the Chinese recognize that the question of Soviet support for Vietnamese activities in Kampuchea is a very difficult issue for Moscow to deal with and that their proposals for Vietnamese withdrawal from Kampuchea and Soviet withdrawal from Afghanistan will complicate negotiations.

As the talks progress, China may first seek partial solutions to these problems, and it may turn to the question of Soviet troops along the border in the hope that a bilateral issue will prove less intractable than those involving third parties. We believe that the minimum that Beijing will demand is a reduction of no less than 10 percent of the Soviet forces currently along the border. China would, we believe, be willing to agree to mutual force reductions to gain Soviet agreement to remove troops from the border.

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We believe that China will accept partial solutions to these problems, both for their own sake and for the momentum that they could create for further progress on these questions. At the same time, however, Beijing would consider that such solutions only partially eased its security concerns. To the extent that these solutions failed to satisfy its concerns, China would continue to regard the Soviet Union as a threat and would therefore limit the extent to which bilateral relations were improved.

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Prospects for Improved Sino-Soviet Economic Relations

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We believe that efforts by China and the Soviet Union to improve relations will probably include broadened economic exchanges between the two states. Both sides have agreed to raise the level of trade, and there is a chance they will agree to greater use of Soviet resources in reequipping China's industrial establishment. Because of their earlier disappointing experiences with the Soviets, we believe that the Chinese will refuse any Soviet offers to resume economic assistance and that they will be even more sensitive to the presence of Soviet technicians in China than they now are to technicians from the developed states.

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The Setting

Economic relations have not been at issue either in last fall's talks or in the current round of Sino-Soviet consultations. Both Beijing and Moscow, however, appear to anticipate prolonged discussions, and in these circumstances they may agree to actions in the economic sphere that will symbolize their professed interest in improving the relationship. We believe that both sides, but China particularly, could gain economic advantages by expanding trade and permitting an enlarged Soviet role in the Chinese industrialization effort.

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Sino-Soviet Trade

The Sino-Soviet trade agreement was signed in Moscow on 10 March. The announcement of the agreement noted that trade between the two countries will "expand greatly," but did not specify by how much. Although China complained last fall of Soviet delays both in shipping exports and in accepting Chinese goods, total trade in 1982 reportedly reached the planned level of $300 million. Prior to the 1983 talks, the Chinese told an East European diplomat that they expected a 40-percent increase in annual trade—to about $420 million. This level would still be well below the levels that existed before 1981, the low point for such exchanges (see table).

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Trade between the Soviet Union and China accounts for less than 1 percent of either country's total trade—thus the potential for long-term expansion is sizable. The present markets in the Soviet Far East for Chinese textiles and other consumer goods and in China for Soviet timber, fertilizer, and machinery provide ample room for expanding total trade to at least the 1980 level and, perhaps within a few years, to the $1 billion level. Soviet nonoil exports have faced sluggish markets throughout the world for the past few years, and the USSR clearly has the capabilities for greatly increasing its exports to China. We estimate that China could similarly increase its exports to the USSR without seriously affecting its sales to the non-Communist world.

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China's policy of maintaining an "open door" to imports from the developed countries has been repeatedly affirmed over the past year. While Beijing will try to avoid any trade commitment to the USSR that might constrain its ability to increase its exports to the United States, Japan, and Western Europe, we believe growing import restrictions on Chinese goods in those countries could make the Soviet market more attractive.

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Sino-Soviet Trade *Million US $*

	Chinese Exports	Chinese Imports	Total
1978	257.3	242.2	499.5
1979	240.7	268.1	508.8
1980	229.9	293.5	523.4
1981	131.7	115.9	247.6
1982 [a]	150.0	150.0	300.0

[a] Estimated. Details on exports and imports are unavailable, but trade protocols in past years have aimed at achieving a rough balance.

A Greater Soviet Role in Chinese Industrialization?
Since the Sino-Soviet break in 1960, Beijing has on several occasions refused Soviet offers for a resumption of economic and technical assistance. For example, during the talks in 1979, China was unreceptive to Soviet offers of increased trade and economic assistance. At that time, Chinese industrialization policies were heavily focused on importing large numbers of complete plants and state-of-the-art technologies from the West. Further, China had arranged some $30 billion in Western credits to help finance the effort. Beijing clearly viewed Soviet capabilities for providing advanced technologies as limited.

Changes in China's industrialization policies since mid-1981, however, have enlarged the possibilities for a Soviet role in Chinese modernization. First, Beijing has reduced its emphasis upon importing whole plants from Japan and the industrialized West and has placed greater emphasis on upgrading and reequipping its 400,000 industrial plants. While China has continued to import selected equipment and processes from developed countries, it has increasingly relied on its own domestic investment resources for upgrading plant and equipment. Second, Beijing now recognizes that reequipping these existing plants, including some 200 major facilities originally built with Soviet assistance in the 1950s, does not require the latest technologies to make them more productive. The Chinese may now believe that the Soviet Union can provide industrial processes and equipment which, while they may not be as advanced as those available in the West, could improve industrial performance without the expenditure of hard currency. Under these circumstances, the Chinese might now be more receptive to a Soviet offer to modernize a number of plants built with Soviet help in the 1950s.

Whether modernizing existing plants or planning new ones, Beijing may see merit in drawing upon Soviet techniques for discovering and processing nonferrous metal deposits, basic petrochemical technology—for example, polyethylene and polyester production capacities, which are important to the expansion of China's synthetic fiber industry—and high-voltage (above 500 kilovolts) transmission technology. Given China's strong interest in developing its hydropower potential, we believe it might be interested in acquiring Soviet hydrogenerators with capacities above 500 megawatts and facilities for manufacturing such equipment—areas in which the USSR is among the world's leaders. 25X1

In sum, we believe that Sino-Soviet trade will pick up over the next few years and that there is a good chance that China will agree to import, at least selectively, Soviet machinery and equipment. Although such arrangements could be useful in China's industrialization, they will not play the major role as long as China continues to view its modernization as primarily a matter of learning from and eventually catching up with the technologically advanced countries of the non-Communist world. 25X1 25X1

The Question of Soviet Aid
We doubt that a Soviet aid program would be part of an expanded economic relationship with China. Present Soviet programs are directed to supporting such client states as Vietnam, and Moscow offers few economic concessions even to its East European allies. Moreover, China's foreign payments position is now far stronger than it was in the 1950s, when a Soviet loan of $1.4 billion provided the backbone of Chinese economic development, and China can readily pay for Soviet imports through exports. More important, Beijing would want to avoid any arrangement that could revive memories of the dependency marking earlier relations with Moscow. The Chinese leadership has for many years attributed a major part of its economic difficulties to the influence of Soviet economic doctrine in the 1950s and to the "perfidious" withdrawal of Soviet technicians and assistance in 1960. 25X1

Beijing's desire to minimize the appearance of dependency on the USSR and its continuing uneasiness over the presence of other foreign technicians now working in China will rule out the return of Soviet technicians on the scale of the 1950s (some 2,000 Soviet technicians and advisers were withdrawn in the early 1960s). Nevertheless, almost any Chinese movement toward greater use of Soviet resources in the economic sphere will entail accepting a larger Soviet presence in China. This would be easier for the 25X1

Chinese leadership to accept—and defend—if the return of Soviet experts were part of an agreement calling for reciprocal cultural, educational, and technical exchanges with the USSR. Beijing could then present the turn to the Soviet Union as an arrangement that parallels those already existing between China and the United States, Japan, and a number of West European countries.

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Vietnam, Kampuchea, and the Sino-Soviet Talks

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Vietnam continues to show concern that its position in Kampuchea could be undermined by a Sino-Soviet accommodation despite Soviet assurances. Since late last year, top Vietnamese officials have exploited every occasion to ascertain Soviet attitudes toward the talks. Vietnamese Deputy Foreign Minister Vo Dong Giang met with Soviet Deputy Foreign Minister Mikhail Kapitsa in January to discuss Kampuchea and Soviet strategy for the second round of Sino-Soviet talks. One month later, after visiting some ASEAN states, Kapitsa stopped in Hanoi to reiterate Soviet support for Vietnam. Earlier, in the annual Bolshevik Revolution anniversary speech, the CPSU promised to do all in its power to support Vietnam. Vietnam's senior leader, Le Duan, met with General Secretary Andropov on 23 December in an atmosphere of "complete mutual understanding," and a Vietnamese Communist Party secretary later said the USSR had promised that it would not discuss third-country interests in the Sino-Soviet talks.

Vietnamese concerns are threefold. A Sino-Soviet accommodation that involved a cutback in Soviet military and economic aid to Vietnam would complicate Hanoi's efforts to control Kampuchea and would further strain the Vietnamese economy. We believe Vietnamese leaders also fear that loss of Soviet support would tip the military balance of power toward China, forcing Hanoi to deploy even more troops along its northern frontier and possibly increasing the risk of Chinese military action there.

Vietnam in the Sino-Soviet Talks

Although Moscow has sought to focus the Sino-Soviet talks primarily on bilateral issues, Beijing has seized upon them in part to try to divide Moscow from Hanoi. According to diplomatic reports, China presented to the USSR in the opening round a plan on Kampuchea that included:

- Vietnamese withdrawal from Kampuchea as one condition for improved Chinese economic and cultural relations with the USSR.
- Chinese discussion of normalizing relations with Vietnam after "some regiments" have begun a phased withdrawal.
- An end to Hanoi's "anti-Chinese policies."
- UN-supervised elections for all Kampuchean factions and international guarantees of Kampuchea's independence, neutrality, and nonalignment.

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The USSR replied that it would not discuss issues involving third parties like Vietnam, and it has publicly called the Kampuchean situation irreversible. Beijing probably calculated that it would be rebuffed, but it hoped to highlight Moscow's role in supporting Vietnamese aggression in Kampuchea. China might also hope to stir controversy within the Soviet leadership over the wisdom of continuing to support Vietnam in policies that are expensive to Moscow both diplomatically and economically.

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Near-Term Progress Unlikely

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China has offered little to the Soviets that would offset the present advantages they enjoy from their relationship with Vietnam. By bolstering Vietnam, the USSR diverts Chinese attention from the Soviet border and helps obstruct Chinese influence in Southeast Asia. Soviet naval forces use Vietnamese facilities to support aerial surveillance and intelligence collection over the South China Sea and the western Pacific, as well as Soviet naval deployments in the Indian Ocean.

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Soviet media continue to attack the Chinese for their refusal to accept the Heng Samrin regime in Phnom Penh and have stated that "third party" interests would not be sacrificed to achieve an agreement.

the Soviets are still delivering to Vietnam trucks, tanks, armored vehicles, and artillery that are being used in Kampuchea.

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The Chinese at this time would be extremely reluctant to agree to a settlement in Indochina that recognized the primacy of the pro-Vietnam group in a Kampuchean coalition government. On the political front, resistance to the Vietnamese occupation of Kampuchea has allowed Beijing to find common cause with the five ASEAN nations, which historically have been more wary of Chinese than Soviet or Vietnamese intentions in Southeast Asia. ASEAN's support has provided the Chinese-backed, anti-Vietnamese resistance group in Kampuchea the international recognition otherwise denied it and prevents Vietnam from consolidating its positions as a major regional power and virtual overlord of Indochina. Diplomatic reports indicate that the Chinese want to give the resistance groups time to strengthen their forces before they consider any negotiated solution in Kampuchea.

Even if Moscow and Beijing were to reach some form of agreement on Indochina, Hanoi probably would not cooperate—a fact that inhibits Soviet efforts to make any deal to which Hanoi might strongly object. As indicated in many public statements, the Vietnamese believe a client regime in Phnom Penh is necessary to their security. In our opinion, Hanoi believes that were Kampuchea not under Vietnamese control, it would fall under Chinese influence. Furthermore, Kampuchea is the only major policy success for the Vietnamese leadership since unification of Vietnam—one Hanoi is unlikely to let slip.

Vietnamese Political and Military Options

Should Hanoi sense some movement toward a Sino-Soviet accommodation further down the road, it has some military and political options of its own. It could stage a large-scale provocation along the Sino-Vietnamese border, the Thai-Kampuchean border, or among the South China Sea island groups that Hanoi disputes with Beijing. Such an action would be aimed at forcing the Soviets into supporting Vietnam.

On the political front, Hanoi might try to prevent a Sino-Soviet arrangement on Kampuchea by initiating negotiations to create a coalition government between the Hanoi-backed Heng Samrin forces and the non-Communist resistance in Kampuchea—thus isolating the Chinese-backed Communist resistance forces.

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If the Vietnamese were to face a total loss of Soviet military aid, they might sharply escalate their military activities in Kampuchea in an attempt to cripple the resistance before the supply pipeline closed. This would require the transfer of several divisions from the Chinese border. To be assured of success, the Vietnamese would also have to use air power—used only sparingly in the past—and mount extensive operations inside Thailand against supply caches, refugee concentrations, retreating guerrillas, and perhaps Thai military and administrative personnel. This scenario seems unlikely, however, since Hanoi knows that the Kampuchean resistance could be resupplied while Vietnam could end up weaker—and in a poor position to face US aid to Thailand if Thailand were drawn into the war by Vietnamese attacks.

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The Need for Aid

Moscow's ability to influence Vietnam depends mainly on the effectiveness of military and economic aid as a lever. Soviet data show that Moscow provided about $2.3 million per day in economic aid to Vietnam in 1981-82. The costs of oil supplies—about 30,000 barrels per day—and of the Soviet-financed grain shipments probably account for the bulk of this amount. In addition, some $2.2 billion of military equipment was shipped to Vietnam during 1979 and 1980 to strengthen defenses against China and to supply Vietnamese forces in Kampuchea.

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Soviet reduction or elimination of military aid would have little immediate impact on Hanoi's military operations in Kampuchea. Vietnam has ample stockpiles of military equipment, and we believe the Vietnamese still have the capability to manufacture the small-arms ammunition necessary to maintain the effectiveness of their army—mostly light infantry—for several years. Over the longer haul, Vietnam's

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USSR: Economic and Military Aid to Vietnam *Million current US $*

	1975	1976	1977	1978	1979	1980	1981	1982
Total	**304**	**335**	**301**	**400**	**1,772**	**1,372**	**1,270**	**1,070**
Economic	229	305	291	335	572	417	900	800
Military	75	30	10	65	1,200	955	370	270

poor record of maintaining more sophisticated equipment and the inevitable shortages of spare parts would limit the military's flexibility. A Soviet aid cutoff would also, in time, erode the capabilities of the units assigned to the northern border against China, where most of the more sophisticated Soviet equipment is deployed.

A cutoff or reduction of Soviet oil deliveries to Vietnam would have a more serious impact, particularly for Vietnam's domestic economy. we estimate that the Vietnamese have a 30-day supply of fuel in Kampuchea. Once this was exhausted, the mobility of Vietnamese forces there would be sharply curtailed, and we would expect a slow but steady deterioration in the security situation in the interior of the country. In addition, the Vietnamese would have to abandon the large-scale combined-arms operations employed successfully in the last dry season (November 1981 through May 1982) along the Thai-Kampuchean border—but not repeated on the same scale this season. We believe, however, neither the loss of mobility nor the cutback in large operations would weaken the Vietnamese position enough over the short term to compel a withdrawal or reduction in forces.

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Prospects

The USSR has only limited options for trying to pursue reconciliation with China yet preserve an alliance with Vietnam. We believe Moscow will seek a middle course. It might reduce both military and economic aid, saying it was continuing to help Vietnam defend itself and develop its economy rather than supporting the Kampuchean war effort. It might also launch new diplomatic efforts to resolve the Kampuchean problem, rather than just endorsing Vietnamese proposals, and urge Hanoi to moderate criticism of China and to restrain military operations in Kampuchea.

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Such temporizing would probably satisfy neither Beijing nor Hanoi. Although Sino-Soviet relations might improve somewhat, the continued clash of Soviet and Chinese interests in Asia will reinforce Moscow's reasons for supporting Hanoi. The USSR probably also would be careful not be to seen as coercing or abandoning an ally because of the potential problems with other present or prospective clients. Nonetheless, so long as the USSR continues talks with China, Hanoi will worry about being sold out.

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Other Topics

Soviet Military Assistance and Support for Nicaragua

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The USSR gradually expanded its military and security role in Nicaragua in 1982 to help entrench the pro-Soviet Sandinista regime. During the year, military and security relations between the USSR and Nicaragua became closer and more formal, and Nicaraguan Defense Minister Ortega and Interior Minister Borge visited Moscow for consultations.

Military Deliveries

The Soviets have for the most part continued to use Cuba and other third parties to supply military assistance to Nicaragua in order to avoid provoking US countermeasures against either Nicaragua or the USSR. Military equipment funneled through Cuba, Algeria, and other third parties in 1982 included 20 T-54/55 tanks, 12 truck-mounted multiple rocket launchers, and one patrol boat. The rocket launchers and the patrol boat were sent from the USSR to Algeria and transshipped to Nicaragua.

In funneling arms through the Algerians and in some cases the Cubans, the Soviets have usually shipped equipment on their own carriers from the USSR to these countries. The equipment has then been reloaded aboard Algerian and Cuban ships for transfer to Nicaragua.

One significant delivery in 1982, by a Bulgarian ship that arrived in Nicaragua in November, may be an exception to this pattern. The T-54/55 tanks involved may have been drawn from Bulgarian inventories, but in our judgment the delivery was almost certainly made at Soviet behest.

Although the bulk of significant Soviet military equipment has come through these intermediaries, the Soviets have directly delivered MI-8 helicopters, AN-2 transport aircraft, and trucks. These deliveries, at least some of which originated in Leningrad, have been made at the port of Corinto on the Pacific coast. Corinto is the only Nicaraguan port capable of handling major oceangoing vessels. So far this year, the Soviets have delivered four armed MI-8 helicopters directly to Corinto and have shipped two AN-26 transport aircraft to Cuba for eventual transshipment to Nicaragua.

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We estimate that Soviet military agreements with Nicaragua—including both direct and indirect shipments—totaled about $120 million through 1982. We believe most of these agreements were made in 1981 and estimate that new agreements worth about $10 million were made last year (see table for information on deliveries).

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Other Military and Security Support

Moscow has between 75 and 95 military and security personnel in Nicaragua.

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an undetermined number of Soviets are attached to the Nicaraguan General Staff, where they are assisting in the preparation of military contingency plans and probably providing intelligence support. Soviet military advisers are involved in plans to reorganize and improve various Nicaraguan military services,

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Estimated Deliveries of Major Soviet Military Equipment to Nicaragua [a]

Equipment	Number of Items	
	1981	Jan 1982 to Feb 1983
Aircraft		
MI-8 helicopters	2	5
AN-2 transports	6	...
Ground/air defense weapons		
T-54/55 tanks	25	20
BTR-50/60 armored personnel carriers	13	...
BM-21 truck-mounted multiple rocket launchers	...	12
ZPU 23/2 antiaircraft guns	Unknown	...
152-mm field gun/howitzers	12	...
GSP heavy ferrys	...	4
122-mm field gun/howitzers	...	8
Naval Craft		
Zhuk patrol boat	...	1
Other		
Full House intercept and direction-finding system	...	1

[a] Deliveries from Cuba are not included.

particularly the Air Force where they have apparently displaced the Cubans as the key advisers. Some are also pilot-instructors and technicians sent with the MI-8 helicopters and AN-2 transports to provide training and logistic support for Sandinista counterinsurgency efforts.

The continuing expansion and improvement of some Nicaraguan airfields coupled with reported training of Nicaraguan Air Force personnel in Cuba, Bulgaria, and elsewhere in Eastern Europe suggest that Moscow originally intended to send fighter aircraft to Nicaragua. 25X1

25X1 The Nicaraguans are maintaining MIG-21s—perhaps 12 to 20—along with trained pilots in Cuba. This may well represent a Soviet-Cuban effort to circumvent US warnings to Moscow against the introduction of fighter aircraft into Nicaragua.

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Moscow's efforts last year to strengthen the Nicaraguan military suggest a special emphasis on bolstering Sandinista ability to cope with insurgency. 25X1

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Nicaraguans are being trained in the USSR to operate MI-8 helicopters. The recent deliveries of armed MI-8s by the Soviets and MI-2s by the Libyans are primarily to strengthen Sandinista counterinsurgency capabilities. 25X1

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We also believe that during the past year Moscow has continued to encourage its allies to support Nicaragua. Growing East European military cooperation with the Sandinistas is almost certainly undertaken at Soviet behest, and the Soviets probably also encouraged such countries as Libya to provide military assistance and training 25X1

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Moscow's Strategic Commitment

The Soviets see the survival of the leftist regime in Managua as the centerpiece of their general efforts to exploit and encourage revolutionary changes in Central America and undermine US influence there. Moscow hopes that revolutionary ferment in the area will divert US attention and resources from more distant problems, strain Washington's relations with its allies, and undercut US credibility in the eyes of the Third World countries. To these ends, the Soviets and their allies have made a special effort to build up the Nicaraguan military and security establishments. Moscow no doubt hopes that this assistance will discourage outside efforts to topple the Sandinista

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regime and intimidate Nicaragua's neighbors into accepting Managua's leftist pro-Soviet orientation.

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Despite its support and expanding involvement, Moscow has been careful to play down its direct commitment to the Sandinista regime. Moscow and Managua do not have a "friendship" treaty, and over the past year statements dealing with Soviet-Nicaraguan relations by senior Soviet Politburo members such as the late President Brezhnev and Victor Grishin fell well short of representing a defense commitment. The USSR's continuing reliance on intermediaries in providing the bulk of its military assistance is also intended in part to ensure that Moscow's prestige is not tied to the fate of the current regime in Managua.

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At the same time, Moscow has intensified efforts both through diplomatic channels and through the KGB to stimulate international support for the Sandinista regime. The visits to Managua over the past year by high-level Bulgarian, Czechoslovak, and Hungarian officials as well as by the top leaders of the pro-Soviet Third World countries of South Yemen and Mozambique no doubt were undertaken with Moscow's encouragement to shore up Managua's international credentials. The Soviets also showed particular interest in promoting opposition to US policies in Central America at the Nonaligned Coordinating Committee meeting held last month in Managua.

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Subsequent Soviet commentary on the Managua gathering suggests that Moscow was pleased with the results. If international support for the Sandinista government grows, Moscow's stakes in Nicaragua may rise and it could feel compelled to be even more responsive to the regime's security needs.

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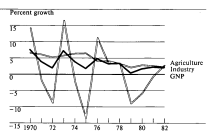
The Soviet Economy in 1982

Note change in scales

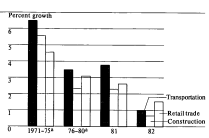
Growth Rates of GNP, Agriculture, and Industry
The Soviet economy grew by 2 percent in 1982; farm output improved, while industrial growth continued to deteriorate. Agricultural performance varies widely from year to year, strongly influencing annual growth rates, but it is industry that determines the growth path for the economy. Thus the slide in industrial growth and labor productivity bodes ill for the long term.



Growth of Selected Sectors

Rate of growth	1971-75 [a]	1976-80 [a]	1981	1982
Ferrous metals	4.0	1.0	−0.1	−0.9
Nonferrous metals	5.9	2.3	1.3	0.8
Electric power	7.0	4.5	2.5	3.0
Machinery	8.0	5.0	3.4	3.8
Chemicals	8.6	3.6	4.0	1.6
Wood products	2.6	−0.3	2.3	1.4
Construction materials	5.4	1.2	1.4	−1.4
Light industry	2.7	2.7	1.9	−0.1
Food industry	3.9	1.1	1.9	2.8

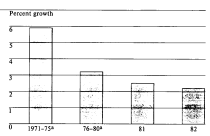
Selected Measures of Economic Activity
Most other producing sectors turned in poor performances in 1982. The transportation sector did especially badly despite increased demand. The construction sector was plagued by shortages of raw materials and supply bottlenecks. Retail trade, when calculated on a per capita basis, grew less than 1 percent, reflecting the slow growth in the production of consumer goods.



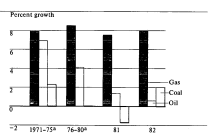
Estimated Hard Currency Debt to the West
The Soviets had considerable success in curbing growth in their hard currency debt in 1982. Although their debt service ratio is relatively small—less than 20 percent—a natural conservatism, heightened by the Polish example, made and will continue to make Soviet financial planners wary of increasing their foreign debt.
Moscow's success in controlling its debt was purchased at substantial cost. The USSR increased hard currency exports of goods (especially oil) needed for domestic use and for sale to its allies and reduced imports of Western goods (especially machinery and industrial materials) sorely needed for economic growth. The Soviets will find it increasingly difficult to sustain favorable trade trends in the coming years, particularly if oil prices continue soft.

Billion US $ yearend	1980	1981	1982 [b]
Gross debt	17.9	20.0	20.3
Commercial debt	10.0	12.1	11.6
Government and government-guaranteed debt	7.9	7.9	8.7
Assets in Western banks	8.6	8.4	8.4
Net debt	9.3	11.6	11.9

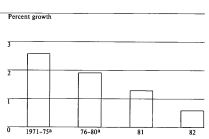
Industrial Growth
Industrial growth faltered again as the erosion of growth in labor productivity, transportation bottlenecks, and shortages of raw materials and power took their toll. The important "growth" sectors—machinery, metals, construction materials, and chemicals—all did poorly compared to past performance. The food industry did substantially better in 1982, reflecting the upturn in farm output.



Growth of Fuel Production
The fuels sectors turned in a mixed performance. Gas production grew fastest at 8 percent, while coal production rebounded from a decline in 1981 to modest growth last year. Oil production rose less than 1 percent despite massive investments; we believe the long-awaited cresting of oil production may be beginning.



Growth of Per Capita Consumption
Consumer welfare virtually stagnated, providing Andropov justification for moving to restore discipline in the workplace. There was almost no growth in per capita food consumption, and meat consumption fell for the second straight year. For the first time since World War II per capita sales of consumer durables actually declined.



Prospects
Andropov's efforts to improve labor productivity through his "disciplinary campaign" probably will lead to a more rapid growth in industrial output this year. This, together with average-to-good weather, could well boost GNP growth in the short term. The outlook for 1984 and beyond, however, will be clouded by continued shortages of industrial materials and transportation and smaller additions to the labor force.

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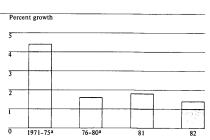
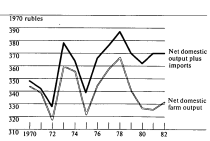
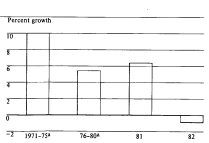
Growth of Labor Productivity in Industry



Per Capita Availability of Farm Products
Agricultural production grew at 3 percent despite a fourth consecutive poor year for grain. The boost in output was due mainly to record harvests of fruits and vegetables and some improvement in production of potatoes, sugar beets, and sunflower seeds.
At the May 1982 "Food Plenum," Brezhnev set forth a lengthy program aimed at stimulating farm output partly by emphasizing larger flows of machinery, fertilizer, and other producer goods to farms. But no apparent increase in the deliveries of these goods has yet taken place.
The regime's success in avoiding a sharp downturn in meat and other "quality" foods since 1978 has been due to a steep rise in imports of farm products.



Growth of Per Capita Sales of Consumer Durables



[a] Average annual rate of growth.
[b] Estimated.

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The Soviet Labor Discipline Campaign

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A crackdown on workers to reduce shirking on the job has been General Secretary Andropov's major initiative thus far to increase production and improve Soviet economic performance. The labor discipline campaign aims at punishing workers or depriving them of rewards because of absenteeism, tardiness, excessive job turnover, and alcoholism. The campaign was initially well received by the public and seems to be boosting production so far. If greater worker effort is not rewarded by an increase in consumer goods and services, however, the discipline campaign is likely to run out of gas.

Origins of the Campaign

The discipline campaign is clearly a key element in Andropov's strategy for stimulating a faltering economy. His strategy began with the use of "administrative measures" to enforce discipline: "Although everything cannot be reduced to discipline," he said, "it is with discipline that we must begin, comrades." This tactic was intended to get laggards off the streets and back on the job. The regime hopes for a response in production large enough to provide incentives for boosting productivity. At the same time, Andropov is promoting two additional tactics designed to reinforce labor's commitment to better job performance: (1) linking wages and bonuses more directly to production results and (2) granting more managerial responsibility at the primary production level.

The keynote of the current campaign was Andropov's speech at the Central Committee plenum on 22 November, in which he noted that poor performance should have "an immediate and unavoidable effect on the earnings, official status, and moral prestige of shoddy, inactive, and irresponsible workers." Since mid-December, when a Politburo meeting focused on letters from workers complaining about the lack of law and order and discipline, the campaign has picked up steam. At a meeting on 24 December, representatives of Moscow enterprises called for a reduction in absenteeism and turnover and demanded an increased use of firings to enforce labor discipline. That meeting has been followed by a daily barrage of articles, exhortations, and exposes in the central and regional press reinforcing these themes.

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While malingering workers are the prime targets for punishment, laggards in management—including party, trade union, and enterprise authorities—are under pressure to shape up as well. For example, in late December, *Pravda* published an open letter from dissatisfied workers in a heavy construction enterprise to the Minister of Ferrous Metallurgy complaining about nondelivery of supplies and demanding improved performance by the Ferrous Metals Ministry.

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The police reportedly have raided stores, restaurants, theaters, and public transportation to check documents. These tactics appear to have been successful. Queues at shops are said to be shorter, and the US Embassy in Moscow reports having heard of numerous cases of workers being dismissed for being absent without leave.

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Popular Reaction

Many Soviets have expressed satisfaction with the discipline campaign as something that is long overdue and will get the economy moving again. Indeed, IMEMO Deputy Director Ivanov noted that the campaign and followup Politburo meetings were touched off by an outpouring of workers' letters calling for such a crackdown. But even if the average Soviet worker puts in a larger share of the scheduled workweek on the factory floor, he still would not expect to work harder while he is there

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Because the Soviet system can implement coercion more quickly and easily than it can change entrenched bureaucratic procedures, the labor discipline campaign runs the risk of being carried too far too fast. Indeed, in a manner typical of Soviet-style campaigns, the police have been heavyhanded and

indiscriminate in cracking down on absenteeism. A continuation of this tactic could foster an atmosphere of resentment and fear throughout the work force. Because of widespread use of shift work in industrial centers, many workers are on the streets during normal working hours. Such workers reportedly are becoming annoyed and frustrated by delays involved in waiting for document checks

Perhaps recognizing that too much zeal in carrying out the discipline program could further alienate the work force, the Politburo, at a meeting in mid-January, evidently examined other measures to keep workers on the job. The Council of Ministers issued a resolution providing flexible work hours for the service sector and expanding consumer services such as shoe repairs, laundries, and retail food outlets at factories. This would reduce the pervasive pressures on workers to leave work for long stretches during the day to attend to personal business. The deadline set for implementation of this decree is 1 April 1983. The US Embassy in Moscow reports that a number of stores are already adopting evening hours in response to the resolution.

Impact on Production

The campaign seems to be boosting efficiency and production. East European diplomats have reported, for example, that the tempo of work in the Soviet institutions with which they do business has picked up markedly. Moreover, some of the nearly 6-percent increase in industrial production in January, compared with January 1982, may have been the result of better work habits. January 1982, however, was a particularly poor month for Soviet industry, and we have no way of determining how much of the January 1983 rebound was due to tighter discipline.

The intensity and harshness accompanying the current campaign represent a departure from behavior during the Brezhnev years. In the last major discipline campaign, in the winter of 1970, labor placement bureaus were supposedly given a greater role in controlling workers. Violators of labor discipline were to lose their bonuses for three months and were to be assigned to lower paid employment regardless of their qualifications. Unnamed leaders who failed to fulfill plans were reprimanded. But the police were not used, nor were there calls for firings as in the current campaign. 25X1

The best the Soviets can probably hope for from the present campaign is a gain in production per worker corresponding to an increase in the hours actually worked. The payoff ends when downtime is reduced to 25X1 the level dictated by machine breakdowns, interruptions in material supplies, and the like. This benefit could be offset by growing resentment if greater worker effort is not rewarded by an increase in the supply of consumer goods and services. 25X1

The discipline campaign will have tough sledding for a variety of reasons. Until allocational priorities change there is little hope for large increases in the supply of consumer goods and services. Public tolerance of a tough discipline drive, 30 years after Stalin, is likely to be tenuous and transitory. Moreover, in the current tight labor market, management will be reluctant to crack down on workers, who can easily quit and get jobs elsewhere, often at higher pay. Moreover, it has been standard managerial practice to hoard 25X1 labor "reserves" to meet erratic work schedules or provide temporary help for the harvest from the pool of nonfarm workers. Finally, firing workers goes against the grain of Soviet society, which believes a worker has the right to a job, and even to the job he now holds. 25X1

The campaign's aim of reducing excessive job turnover will have a particularly heavy impact on young workers and could be counterproductive. In an era of a tightening labor market, geographical and intersectoral mobility is at a premium. Workers under 30 years of age are responsible for about 60 to 65 percent 25X1 of all turnover, and 75 percent of those leaving their jobs have worked less than three years. Instead of arbitrarily curbing job turnover, some of the factors that contribute to high rates of turnover should be alleviated. These include dissatisfaction with working conditions (dangerous duty, boring work assignments, and erratic work schedules—frequent periods of idleness followed by episodes of "storming") and inadequate living arrangements (poor housing and a lack of

consumer services, child-care facilities, and social and leisure activities).

Soviets Recognize Limits

Some Soviets recognize these points. Trade Union chairman Shalayev, while endorsing the need for greater discipline at the plenum held in January, seemed to stress the unions' role as defender of workers' interests by promoting incentives such as improved working conditions and greater use of the brigade system of labor organization. The chairman of the Metallurgical Industry Workers Union supported this position, noting that violators of labor discipline "cannot be fired; they have families to be considered."

Several recent articles have suggested that improvements in economic management rather than harsh measures to change poor attitudes and habits among workers hold the key to higher productivity. V. Kostakov, a sector head at Gosplan's Institute for Economic Research, recently wrote in *Literaturnaya gazeta* that "it is necessary to infuse the struggle for strengthening discipline with the understanding that we should have in mind the whole productive chain. This matter should not be reduced only to a struggle with idlers."

Two liberal economists were cautiously optimistic about the outlook for change, but stressed the bureaucratic and popular resistance to reform. In discussing why a 15-year experiment in improving labor productivity—the so-called Shchekino experiment—has not been more widely introduced, the economists noted that "we cannot simply uproot people and force them to find employment in other places. We can try this in individual factories, but you can imagine the chaos if whole oblasts started to do it."

Andropov himself, in his much publicized recent visit to a Moscow machine-tool factory, stressed the long-term nature of the task and collective responsibility in carrying it out, beginning at the ministerial level. He may have been signaling the police to back off somewhat by emphasizing the risks in getting bogged down in "trivialities like coming a few minutes late for work or taking too many breaks."

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Coping With Food Shortages in the USSR

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Changes in food supplies are the Soviet citizen's leading barometer of his standard of living. Food accounts for the largest share of his family's budget, and shortages must be coped with on a daily basis. Since the late 1970s, after a decade of substantial improvement in the Soviet diet, three notable changes have occurred in the food supply:

- The per capita provision of most quality foods, as well as some staple foods, has stagnated or declined.
- A growing share of food in short supply is unavailable for purchase by the general public but available through a variety of special distribution schemes. This has led to greater tautness in the supply of food in state-operated retail markets, making shortages appear worse than they are in the aggregate and leading to increased rationing.
- The quality of many food products has declined as farms and processing enterprises, in an effort to reach output targets, strive for quantity at the expense of standards.

Meanwhile, prices for perishable foods in the collective farm market, which vary according to supply and demand, rose in Moscow at an average annual rate of 10 percent between 1979 and 1982.

In the face of pervasive consumer dissatisfaction, the regime has taken steps to limit the dangers. It is stressing measures that minimize the impact of food shortages on worker morale and productivity by shifting the worst effects from workers to those in Soviet society less able to mount effective protest. The leadership so far has stuck to its basic policies relating to food supply and demand, like its predecessor counting on a better agricultural performance to increase supplies. Some signs have appeared, however, that the Andropov regime is giving greater consideration to the alternative of price increases in state retail outlets to contain consumer demand. Selected foods may be targeted for price increases this year.

Slower Growth in Food Supplies

While Soviet citizens receive enough calories, the diet is inferior in nutritional quality and variety to that of developed Western countries and most East European countries. In the first 10 years of its tenure, the Brezhnev regime improved the bland and starchy diet. The consumption of starchy staples declined from 54 percent of caloric intake in 1965 to 46 percent in 1977, as quality foods such as meat and dairy products became more available. Nevertheless, in 1977 the share of starchy staples in the Soviet diet was still twice as high as in the US diet; the share of meat and fish, less than half the US level. With more rubles in their pockets, consumers were eager for further advances.

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With the exception of eggs, the per capita availability of various quality foods peaked in the late 1970s. In 1982 per capita meat consumption was down 1 percent from its 1979 peak. In comparison with peak availability, 1981 consumption of milk products was down 5 percent; fish products, down 3 percent; and fruits, down 2 percent. Insult was added to injury as potatoes, "the second bread," became scarce in 1980 and 1981 following disappointing harvests.

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Without increased food imports in recent years, the per capita availability of some major foods would have been several percent lower. The leadership may have decided, however, to hold the line on some imports last year. For example, the Soviet Union's purchases of meat declined by nearly 10 percent in 1982 despite lower prices on world markets

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The evidence of a change for the worse in food supplies obtained from Soviet production statistics is confirmed by a special survey project carried out by the Soviet Area Audience and Opinion Research Division of Radio Free Europe/Radio Liberty. In the

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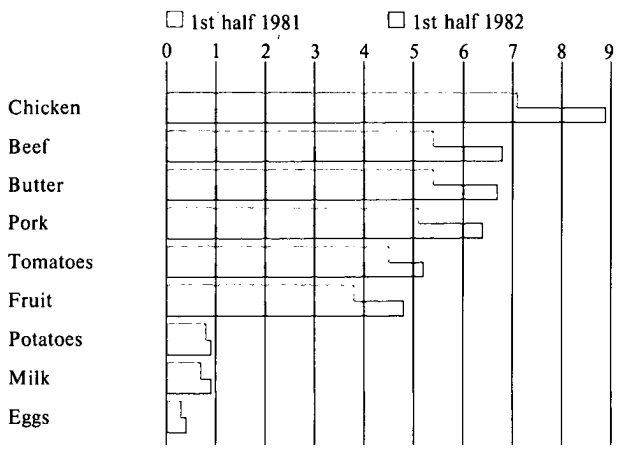
USSR: Collective Farm Market Prices of Selected Foods[a]



[a] Rubles per kilogram except for milk (per liter) and eggs (per unit).

Data from Soviet Area Audience and Opinion Research Division, Radio Free Europe/Radio Liberty.

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first half of 1981, 492 emigres completed questionnaires on the availability and price of 18 food products in state stores and collective farm markets. In the first half of 1982, 698 emigres answered the same questionnaire.

A comparison of data for the two periods shows that the share of respondents reporting regular availability in state stores for most products surveyed declined, although part of the drop may have been caused by statistical discrepancies. A decrease in the availability in retail outlets of such items as eggs, fish, flour, margarine, and potatoes—mostly staples which were produced and/or procured in greater amounts in the first half of 1982 than in the first half of 1981—suggests an increasing diversion of these items to limited-access stores. Prices in collective farm markets continued on their upward path (see graph), also indicating tauter food supplies. Free market prices of such quality foods as beef, pork, and eggs are now three to three and a half times those in state-controlled outlets.

USSR: Regular Availability[a] of Selected Food Products in State Stores

Percent of Respondents

	First Half 1981	First Half 1982	Change
From cities over 1 million			
Beef	15	11	−4
Beets	61	49	−12
Bread	97	91	−6
Eggs	47	44	−3
Fish	79	73	−6
Flour	55	43	−12
Margarine	86	68	−18
Milk	32	15	−17
Sugar	90	79	−11
From cities of 100,000 to 1 million			
Beef	2	3	+1
Beets	49	17	−32
Bread	87	77	−10
Eggs	30	9	−21
Fish	75	47	−28
Flour	46	18	−28
Margarine	70	50	−20
Milk	22	10	−12
Sugar	82	55	−27
From cities under 100,000			
Beef	0	2	+2
Beets	60	15	−45
Bread	75	67	−8
Eggs	21	8	−13
Fish	63	40	−23
Flour	21	8	−13
Margarine	67	35	−32
Milk	8	3	−5
Sugar	24	2	−22

[a] "Regular availability" indicates the respondent consistently found the food product on store shelves when shopping.

Source: Soviet Area Audience and Opinion Research Division/ Radio Free Europe/Radio Liberty.

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The survey data point clearly to unevenness in food allocations, confirming earlier indications of a high correlation between city size and food availability: the smaller the city, the worse the food supply. In the survey period, supplies worsened more for smaller cities, leaving residents of cities under 100,000 bearing the brunt of the shortages (see table)

Special Distribution Systems

The combination of stagnant or reduced output of quality foods, growth in per capita money incomes (some 3 to 4 percent a year since 1975), and stable prices in state-controlled retail outlets has led to excess demand for these foods. Thus far, Andropov appears to be following Brezhnev in not endorsing broad official price increases as a means of eliminating the gap between food supply and demand. Rather, the leadership has been calling attention to past improvements and is promising to improve the long-run food supply through reorganization of the agricultural sector and associated branches of industry. Meanwhile, aware of the risk of civil unrest occasioned by food shortages and of the average worker's tendency to ask "So what if the world is wide when my shoe pinches," Moscow has taken more immediate steps to minimize the impact of food shortages upon worker morale and productivity.

Since the mid-1970s—but especially in the last two years—a system of special distribution of foodstuffs, considerably more extensive than the traditional special stores for selected elites, has been developed. Under the new approach, foodstuffs are made available at the workplace. The public catering system, for example, has sharply increased its worker cafeteria operations. In many factories, trade union officials organize regular deliveries of foodstuffs prepacked according to individual order. In others, coupons, redeemable for supplies set aside in retail stores, are distributed. And on the eve of holidays, special food packages are distributed at numerous worksites.

These systems originally developed out of local initiative—for example, that of enterprise managers who wished to improve productivity by cutting down on the common practice of workers leaving the workplace to shop. The special distribution practice is now so widespread that the Soviet press has dropped its former reticence about the subject. The nationally circulated labor newspaper *Trud*, for example, recently described in glowing detail how 260 enterprises and institutions in Klaipeda, Lithuania, receive daily deliveries of food packages based on workers' advance orders. According to the article, 100,000 people in this city of 185,000 are served through the special distribution system. However, as emigres from Klaipeda have reported, the stores serving the general public are generally left seriously undersupplied. 25X1

According to recent Soviet statistics, the practice of organizing food sales at the workplace has undergone considerable expansion. From 1977 through 1981, the number of sites for distributing prepackaged food supplies at industrial enterprises and construction projects has increased 300 percent and their commodity turnover has increased 700 percent. A January 1983 Council of Ministers decree ordered all types of consumer service enterprises to expand their operations at factories and other workplaces. 25X1

Food Quality

Per capita daily protein consumption in the Soviet Union remains more than adequate for health needs, although it has dropped slightly since 1975, and the share drawn from animal sources has declined. Vitamin intake is not as satisfactory. According to studies of various categories of the population conducted by the Institute of Nutrition of the USSR Academy of Medical Sciences, consumption of vitamins is inadequate, especially during winter and spring. The intake of vitamins C and A was singled out as particularly insufficient. 25X1

The problems with the structure and nutritional quality of the diet have been accompanied by an erosion in the quality of individual foodstuffs. This is partly because the quality of some agricultural products has deteriorated in recent years, partly because increased transportation problems have led to more spoilage, 25X1
and partly because of quality control problems in the food-processing industry. Some specifics:

- As the average weight of animals sold to the state for slaughter has dropped, the proportion of bone to meat in the animal carcass has risen and consumers

are getting a higher proportion of bone in their meat purchases. Meanwhile, a disproportionately large share of quality cuts has been going into the special supply systems.

- Emigre complaints about watery milk are becoming increasingly common. Soviet statistics show that the fat content of milk sold to the state is down somewhat. Both emigres and the Soviet press have reported instances of farm workers and retail clerks diluting milk to meet output and sales targets.

- The fat content of butter has also dropped, but more sharply. The share of industrially produced butter with a low fat, high water content rose from roughly 50 to 90 percent between 1974 and 1979.

- An increasing number of complaints in the Soviet press and by recent emigres indicates that the quality of bread and other baked goods is slipping. According to a recent article in *Kommunist,* "Alarming symptoms revealing the low quality of the bread baked in many republics and oblasts have appeared." In response, food industry officials cite the delivery of poor-quality flour from the milling industry, as well as a falling gluten content in wheat.

Consumer Attitudes

Although some unrest has occurred—such as short-lived work stoppages—consumers generally have limited their expression of discontent to grumbling among friends. Consumers appear to be dealing with long queues in ways that do not directly threaten the regime—for example, through recourse to the much higher priced foods in the officially sanctioned collective farm markets and through barter and black-market activity. The increasing distribution of foodstuffs at the workplace appears to have headed off protest among the most volatile segment of the population—large worker groups at industrial installations. The group left most vulnerable, the nonworking elderly, presents little risk of violent protest.

So far, Moscow has preferred to deal with the effects of repressed inflation rather than risk violent protest of the sort that food price increases helped to provoke in the Soviet Union in 1962. The authorities are mindful also of the role of food price increases in kindling worker unrest in Poland.

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Particularly since Andropov's rise to power, however, Moscow has become increasingly concerned about illegal economic activity and the official corruption it breeds, as well as the effects of drinking and low morale on labor productivity. An anticorruption campaign launched in the fall of 1981 is being taken up with new vigor, and the Andropov regime has made "poor labor discipline" (a code phrase for absenteeism, turnover, and shoddy work) a major theme. But because poor worker performance and black marketeering often reflect frustration over daily hardships, the regime has to tread a fine line between limiting illegal activity and adding to tension in the labor force. In recent weeks, observers have noted some improvements in state store food supplies; the new regime may be temporarily boosting deliveries by releasing state-held reserves to ease the introduction of the labor discipline campaign and to make a good initial impression upon the populace.

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Policy Options

The Andropov regime has endorsed the Brezhnev Food Program, which calls for increased output of quality foods over this decade. But the Food Program does not address several of the agricultural sector's systemic flaws, and there is resistance to some of its organizational aspects. A marked improvement in the supply of meat and other quality foods to the consumer would require a greater increase in agricultural production (or in imports) than we see in prospect. Further shifts in the allocation of food, more rationing, slowing the growth of money income, and promises of more quality foodstuffs can contribute little more to contain rising consumer demand. Moscow will have to consider other measures.

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The prices of staple foods were last officially increased in 1955, and those of quality foods in 1962.[1]

[1] Some food prices—especially for processed foods—have risen, however, due to pricing procedures which allow increases for product improvement. In practice, "improvements" often are nonexistent, or marginal. This is one cause of consumer complaints about inflation. In addition, the prices of some so-called luxury foods—coffee and chocolate, for example—have been included in recent official price increases for categories of goods considered "nonessential."

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The population, however, is likely to view price increases as infringing an implicit social contract—in return for stable retail prices on essential goods, the populace puts up with low wages and few amenities. Popular displeasure, however, is likely to be proportional to the degree of price increases. We calculate that moderate price increases for livestock products would bring per capita purchasing power for these items back approximately to its 1975 level. If the regime raises prices gradually over a series of years and does not simultaneously provoke worker anger—by imposing sharply higher production quotas, for example—serious unrest could be avoided. The regime may test the waters this year by targeting a few foods for increases; recent evidence indicates veal and lamb prices may already have been raised. [redacted] 25X1

Some leadership waffling on the longstanding commitment to stable retail prices has appeared. A *Pravda* article last December on the waste of bread included reader letters advocating bread price hikes, and a contribution to the same article by the first deputy minister of the food industry lacked the usual promise of no price increases. In his well-publicized visit with Moscow factory workers in February, Andropov left the door open to price hikes, saying that "the path of rising prices . . . does not suit us as a general one, although, it must be said, we do have certain distortions and discrepancies in prices and we must eliminate them." Meanwhile, the regime may be hoping that the late 1981 price increases for a broad range of nonfood goods that pushed up the official price index for retail trade by 3 percent in 1982, along with some additional price increases on nonfood goods early this year, may have absorbed sufficient consumer purchasing power to make broad food price hikes unnecessary for the time being. [redacted] 25X1

[redacted] 25X1